

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3105-01
Bill No.: SB 806
Subject: Taxation and Revenue - Income Tax; Children and Minors
Type: Original
Date: February 23, 2004

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
General Revenue	(\$1,500,000 to Unknown)	(Unknown - Greater than \$100,000)	(Unknown - Greater than \$100,000)
Total Estimated Net Effect on General Revenue Fund*	(\$1,500,000 to Unknown)	(Unknown - Greater than \$100,000)	(Unknown - Greater than \$100,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Total Estimated Net Effect on Other State Funds*	\$0	\$0	\$0

***The fiscal impact could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.**

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 5 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Local Government*	\$0	\$0	\$0

*The fiscal impact could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Revenue (DOR)** state this legislation removes the \$2 million cap that currently applies to the Adoption Tax Credit. The Division of Taxation will see an increase in the number of credits, but will not see an increase in workload due to the time currently spent denying credits over the \$2 million cap. Therefore, there is no impact to DOR.

As of January 23, 2004, of this fiscal year, DOR has approved credits for 786 returns, totaling \$2,000,000. It has also denied 566 returns due to the cap being reached, totaling \$1,496,543. Because the amount denied is only for half of the fiscal year, DOR believes the total loss to general revenue will be more than \$1.5 million. However, DOR cannot estimate the total loss to general revenue and assumes it will be \$1.5 million to UNKNOWN.

Officials from the **Department of Social Services** assume there will be no direct fiscal impact on their agency.

ASSUMPTION (continued)

In response to a similar proposal, officials from the **Office of Administration - Budget and Planning (BAP)** assumed they had no empirical basis for estimating the increased cost of this tax credit if the cap was removed. The removal of the cap could negatively impact general revenue. BAP deferred to the Department of Social Services and the Department of Revenue for information related to the potential cost of this proposal.

Oversight assumes the anticipated amount of credits to be submitted over the annual cap this year could be a result of the previous years' buildup of denied claims plus additional claims from this year. Therefore, if the cap on the tax credits was taken out of statutes, the first fiscal year (FY 2005) could have a large impact of previous year' denied credits being allowed, and then future years not so large. Therefore, with this possibility and with the lack of information available regarding the number of special needs adoptions in the state and the non-recurring expenses related to them, **Oversight** will utilize DOR's estimate of (\$1.5 million to Unknown) for FY 2005, but for future years, assume (Unknown - greater than \$100,000) in losses to GR.

These tax credits can be sold to and utilized by insurance companies against their premium tax liability. Premium tax revenue is split evenly between General Revenue Fund and the County Foreign Insurance Fund which is later distributed to school districts. Therefore, **Oversight** has footnoted the possibility that some of the additional tax credits resulting from this proposal could be utilized by insurance companies and therefore, reduce revenue to the local school districts.

This proposal would reduce Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2005 (10 Mo.)	FY 2006	FY 2007
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GENERAL REVENUE FUND

<u>Loss</u> - General Revenue Increase in adoption tax credits	(\$1,500,000 to <u>Unknown</u>)	(Unknown - Greater than <u>\$100,000</u>)	(Unknown - Greater than <u>\$100,000</u>)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND*	(\$1,500,000 to <u>Unknown</u>)	(Unknown - Greater than <u>\$100,000</u>)	(Unknown - Greater than <u>\$100,000</u>)

***The fiscal impact could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.**

<u>FISCAL IMPACT - Local Government</u>	FY 2005 (10 Mo.)	FY 2006	FY 2007
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

DESCRIPTION

This proposal modifies the adoption tax credit by eliminating the aggregate cap on the credit.

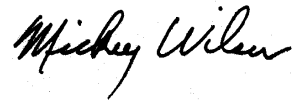
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

KS:LR:OD (12/02)

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Department of Social Services
Department of Revenue
Office of Administration
Budget and Planning

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA
Director
February 23, 2004